



Kasarani Campus  
Off Thika Road  
Tel. 2042692 / 3  
P. O. Box 49274, 00100  
NAIROBI  
Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR**  
**FOURTH YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 9<sup>th</sup> April, 2019  
Time: 11.00am – 1.00pm

**KAC 405 - ACCOUNTING THEORY**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) Discuss the nature of accounting theory (4 Marks)
- b) Describe the approaches to the development of Accounting theory (8 Marks)
- c) In historical cost accounting, transactions are measured in monetary terms; money is not a uniform measure of value especially in periods of changing prices. Explain shortcomings of historical accounting (8 Marks)
- d) Sam and Sons Ltd are considering expanding their operations. Several alternatives strategies are being discussed for financing this expansion. The latest balance sheet of the company as at December 2010 is as follows:

**Sam and Sons**  
**Statement of Financial position as at 31/12/10**

|  | Shs           | Shs                   |
|--|---------------|-----------------------|
| <b><u>Fixed Assets</u></b>                   |               |                       |
| Land and Buildings                           |               | 40,000                |
| Plant & Equipment                            |               | 90,000                |
|  |               | <b><u>130,000</u></b> |
| <b><u>Current Assets</u></b>                 |               |                       |
| Stocks                                       | 50,000        |                       |
| Debtors                                      | 40,000        |                       |
| Cash   | 5,000         |                       |
|  | 95,000        |                       |
| Creditors: Amounts falling due within 1 year | <u>25,000</u> |                       |

|   |                       |
|---|-----------------------|
| Net current assets                            | <u>70000</u>          |
| Total assets less current liabilities         | 200,000               |
| Creditors: Amounts falling due within 1 year: |                       |
| 12% loan repayable 2016                       | <u>90000</u>          |
|   | <u>110000</u>         |
| <br>  |                       |
| <u>Share capital and reserves</u>             |                       |
| 8% cumulative preference shares of shs 1 each | 30,000                |
| Ordinary shares of sh 1 each                  | 50,000                |
| Profit and loss account                       | 30,000                |
|   | <b><u>110,000</u></b> |

The board of directors has identified the following possible alternative ways of obtaining the additional Sh 50,000 required during the following year.

- i) Issue additional ordinary shares
- ii) Issue additional 8 percent preference shares
- iii) Raise additional long-term loan at 12%

Required:

- a) Discuss the company's existing capital structure in terms of its gearing. (5 Marks)
- b) Examine the advantages and disadvantages of each alternative method of financing the expansion plan (5 Marks)

### **QUESTION TWO (20 MARKS)**

- a) Explain the role of a conceptual framework. (5 Marks)
- b) Distinguish between financial position, performance and financial adaptability (5 Marks)
- c) Explain "reliability" and "relevance". What makes information relevant and reliable (10 Marks)

### **QUESTION THREE (20 MARKS)**

- a) Explain current purchasing power (2 Marks)
- b) Discuss the advantages and disadvantages of current purchasing method. (10 Marks)
- c) Write short notes on the following
  - i) Accounting concepts (2 Marks)
  - ii) Accounting standards (3 Marks)
  - iii) Accounting policies (3 Marks)

#### **QUESTION FOUR (20 MARKS)**

- a) Discuss three methods used in computing provision for depreciation. (6 Marks)
- b) Jack and Jill carry on business as wholesalers of the same product. Their respective accounts for the years ended 31<sup>st</sup> Dec 2010 are as follows:

#### **Income Statements**

|                         | <b>Shs</b>          | <b>JACK<br/>Shs</b>  | <b>Shs</b>         | <b>JILL<br/>Shs</b>  |
|-------------------------|---------------------|----------------------|--------------------|----------------------|
| Sales                   |                     | 144,000              |                    | 140,000              |
| Cost of Sales           |                     |                      |                    |                      |
| Opening Stock           | 28,000              |                      | 3,200              |                      |
| Purchase                | <b>124000</b>       |                      | 121600             |                      |
|                         | 152000              |                      | 124800             |                      |
| Closing Stock           | <b><u>32000</u></b> | <b><u>120000</u></b> | <b><u>4800</u></b> | <b><u>120000</u></b> |
| Gross Profit            |                     | 24000                |                    | 20000                |
| Selling Expenses        | 7200                |                      | 2800               |                      |
| Administration Expenses | <b><u>8160</u></b>  | <b><u>15,360</u></b> | <b><u>9500</u></b> | <b><u>12300</u></b>  |
|                         |                     | <b><u>8,640</u></b>  |                    | <b><u>7,700</u></b>  |
|                         |                     |                      |                    | 70000                |

#### **Statement of financial Position**

|                      | <b>JACK<br/>Shs</b>  | <b>JILL<br/>Shs</b>  |
|----------------------|----------------------|----------------------|
| Freehold property    | 20,000               | 14,000               |
| Motor vehicles       | 12,000               | 6,000                |
| Fixture and fittings | <b><u>21,750</u></b> | <b><u>13,830</u></b> |
|                      | 53,750               | 33840                |
| Stocks               | 32000                | 4800                 |
| Debtors              | 28800                | 11200                |
| Bank                 | <u>8950</u>          | <u>11360</u>         |
|                      | <b><u>123500</u></b> | <b><u>61200</u></b>  |
| Capital              | 108000               | 30800                |
| Creditors            | <u>15500</u>         | <u>30400</u>         |
|                      | <b><u>123500</u></b> | <b><u>61200</u></b>  |

#### **NOTES**

1. All sales are on credit
2. The amounts of debtors and creditors have not change significantly over the year
3. All fixed assets and written down value

Required: Compare the profitability and financial position of the two businesses by:

- i) Calculating suitable ratios for each business (10 Marks)
- ii) Comment on the significance of the results of your calculations (4 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Outline the reasons for the change from Kenya Accounting standards to the international standards. (5 Marks)
- b) What are the benefits to the Accountants and the country as a whole (5 Marks)
- c) Discuss the arguments against unregulated accounting reporting. (10 Marks)